



Noted by DCL
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8 September 1975

MEMORANDUM FOR: Deputy Director for Intelligence *WOF*

SUBJECT : Comments on the terHorst Article

1. This is in response to your request for comments on the terHorst article in the Chicago Tribune of 3 September 1975.

2. Mr. terHorst was correct in stating that intelligence collectors did not detect an increase in Soviet chartering of ships. We first learned of it in the press on 7 July and did not then consider it an indication of Soviet plans for exceptionally large grain imports. The reported new Soviet chartering of 19 ships increased grain-carrying capacity by only 2.4 million tons a year.

3. Contrary to the charge that policymakers did not receive CIA estimates of the deteriorating crop conditions, a continuing stream of CIA reports were passed to top-level policymakers, including the President. These reports, however, did not provide advance warning of the extent of Soviet grain imports revealed in mid-July. Although the Air Force processes weather data very quickly, we were working in early July with information on Soviet conditions through 20 June, and at the time the drought had not yet seriously reduced Soviet crop prospects. The critical period of rainfall for Soviet spring grain is from mid-June through mid-July. We were not in a position to ascertain the extent of the drought until late July.

4. Nevertheless, we became convinced around 1 July that deteriorating crop conditions would probably raise Soviet import needs above our previous estimate of 5 million tons. The item on Soviet grain in the 2 July Economic Intelligence Weekly (EIW), which gets elite distribution, contained such a statement. We communicated to Treasury and State on 8 July 1975 an estimate of Soviet

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import demand for FY 76 of 5-10 million tons of grain and told them of rumors in the grain trade that the Soviets had bought about 3 million tons of Canadian and 7 million tons of US grain.



/ MAURICE C. ERNST
Director
Economic Research

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TAB

Jerald terHorst

The Grain Robbery, Part II



WASHINGTON — Behind the sudden and surprisingly big Soviet purchase of American grain and its affect on family food budgets are critical questions that beg for answers.

In trying to probe the murky world of private business transactions with the secretive Russians, I have been unable to come up with a clear explanation as to why, for the second time in three years, the White House and top echelons of government seemingly have been caught offguard in a Soviet grain deal.

Yet any assessments, including those now going on within the Ford administration, point disturbingly to one or more of these conclusions:

- The U.S. intelligence network failed to detect a secret and successful Soviet attempt to charter a large number of foreign vessels well in advance of its American grain buying that commenced on July 16.

- There was no intelligence goof, but the Central Intelligence Agency reports were discounted or ignored — or were never received — by Agriculture Secretary Earl Butz, Assistant Secretary Richard E. Bell who is responsible for foreign grain sales, the National Security Council, or the White House Economic Policy Board.

- All the top officials knew in advance that the Soviets were in a grain-buying mood but felt they had no authority to interpose the government before sales actually were negotiated and reported by the American trade firms.

- Relationships are too cozy between the international grain dealers and the agricultural department, some of whose former officials now work for the grain trading firms.

Denials of these points already have

come from some quarters and more certainly will follow this report. But the fact is that something plainly went wrong or President Ford would not have had to intervene with an order stopping further sales until the administration had a clearer picture of the size of the American harvest and the impact the massive Soviet purchases will have on domestic food prices this winter and next year.

The CIA, in customary fashion, will not concede that it or other U.S. intelligence gathering agencies failed to uncover the Soviet ship-chartering that went on for weeks in advance of the grain buying.

CIA director William Colby's office, already supersensitive about investigations into CIA clandestine operations, would say only that "the intelligence community does keep watch on the world ship-chartering scene."

But if the Soviet effort was detected and reported by U.S. naval intelligence, the unit responsible for surveillance of foreign vessel movements, then why did Butz and Bell seem so surprised by the scope of the Russian activity?

The Washington Post's Dan Morgan, in a story on events leading up to the Russian grain-buying spree, reported that the first definite tip for U.S. officials was a back page item in the July 7 Journal of Commerce that said ship-chartering by a mysterious company named Glenas could be the forerunner of a fleet to move grain to Russia.

Up to then, the U.S. government anticipated purchases by Exportkhleb, the Soviet food-buying agency, but not on the scale that developed in the week following July 16. When Ford temporarily halted grain sales, the Russians had contracted for more than 10 million me-

tric tons of wheat, corn, and barley from the U.S. Additionally, the Soviets have purchased 3 million metric tons of grain from Canada.

While the U.S. government is in better position to anticipate Soviet grain-buying than it was at the time of the "great grain robbery," of 1972, the White House is still not really in the know.

One reason is that sales are not conducted on a government-to-government basis. Another is that the Soviet Union, eager to buy grain at the lowest possible price, insists on secrecy in dealing with the private American dealers.

World grain prices always rise the moment the Soviets enter the market. And with immense profits at stake, the grain traders are in no rush to tell Washington until the last possible moment.

BUTZ AND OTHER top agriculture officials, committed to bettering the lot of farmers by boosting foreign sales, are loathe to inject themselves into the dealers' affairs until forced to do so, usually by political pressure from the White House or Congress or both.

There may be drawbacks to establishing a federal grain board, as Canada has, and as advocated by George Meany, president of the AFL-CIO, and other grain deal critics.

But unless the administration sets up some better monitoring mechanism, even the grain deal assessments going on within the government make clear that it can happen all over again — next year and the years after that — with resulting economic problems for the country and political problems for the President.

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